A 12.5% Ultra-High-Yield Dividend Stock I Would Avoid Right Now!

Description

If you are a passive investor, chances are that you love a good dividend stock. Even if you are an active investor, you most probably have some strong dividend stocks in your diversified portfolio. Either way, a high-yielding dividend stock seems like a lucrative buy. And if the yield is an ultra-high 12.5%, like that of **American Hotel Income Properties REIT** (TSX:HOT.UN), how can investors stay their hand? And why should they?

A dividend yield this high does seem like an incredible opportunity. Even if you don't invest a dollar back, this dividend yield means you will get your $100,000 investment back in eight years just in payouts. That is beside the capital gains you will get with this investment. But if you take a closer look at the stock, this dream yield might start to look unsustainable. Let's see if this massive yield is too good to be true.

The company and its numbers

AHIP is one of the smallest REITs in the country with a market cap of around $532 million. Founded in 2012, the company primarily operates in the U.S., targeting the niche market of select-service hotels. The company owns 112 hotels in 32 states. The hotels are strategically located, targeting densely populated metros. This shows a diversified and steady portfolio with a lot of growth potential.

If all of this seems reasonable, where is the danger signal? Well, that would be in the numbers.

In the past five years, the company has managed to bring its market value down by 33.5%. On a year-to-year basis, the company's net income is down by 34%, the minuscule EPS of 0.07 is also down by a significant 36.36%. This EPS might indicate that the company is not considered profitable.

The company is currently trading at $6.82 per share, which, if you look at the very high P/E ratio of 48.93, is highly overpriced. This number is at least four times higher than the REITs of similar magnitude. The company's return on equity is also low at 0.73%.

Is the dividend sustainable?

If the numbers above and the weak balance sheet are not reliable indicators of potential unsustainability, the dividend itself might be questionable. Smaller REITs do provide higher dividend yields, but 12.5% is still too high. An even more troubling number is the company's payout ratio of about 1,300%. This number means that the company is paying its investors $13 per every dollar it's earning.

In the past five years, the company has decreased its dividend payouts for two consecutive years.

The dividend yield may seem very lucrative at the moment, but it seems unreliable. If the company keeps paying extravagant payouts, despite its lessening net income, chances are that these payouts might not continue for long.

AHIP is still in its early years and may get past these flukes in numbers and emerge as a solid dividend stock. But looking at the current situation, I would urge fellow Fools to take caution if they are considering this super-high-yield stock.

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